

130 B. Cooke

1880

Ms. B. Cooke
1880
81 1/4 v. 4

IN SENATE OF THE UNITED STATES,

MARCH 29, 1830.

Read, and ordered to be printed.

MR. SMITH, of Maryland, made the following

REPORT:

The Committee on Finance, to which was referred a resolution of the 30th December, 1829, directing the Committee to inquire into the expediency of establishing an uniform National currency for the United States, and to report thereon to the Senate, report:

That nothing short of the imperative order of the Senate could induce the committee to enter on a subject so surrounded with difficulty. They undertake it with diffidence and a distrust of their capacity to elucidate a subject that has engaged many nations, and the pens of the ablest writers, without, as yet, coming to any definite conclusion. It still remains to be determined, What is the soundest and most uniform currency? One nation assumes one system, another a different plan. In one nation, a plan is devised, and succeeds for a time by prudent and restrictive emissions. Elated with success, larger and more extensive emissions are risqued; a rapid nominal rise of all property takes place; the people are not aware that such nominal rise is the effect of depreciation; the bubble bursts, and ruin to the unsuspecting, is the consequence. All history shows such a result in several nations, and particularly in that of the United States. The Committee, engaged on a variety of subjects, cannot devote so much time on the resolution as the mover must believe would be necessary to develop fully the question before them, to wit: A sound and uniform National Currency.—Presuming, from the tenor of the resolution, that the uniform National Currency proposed, must be prepared by the National Government, circulated under its authority, and maintained by its credit, the committee have complied with the instruction of the Senate, by endeavoring to devise some plan, through which the agency of the Government, in such a measure, could be safe, or useful; but, after giving to it all the consideration they could bestow, their reflections have resulted in a belief that any such measure must resolve itself, at last, into a mere system of paper money, issued by the Government. The resort to the issue of a paper money has been often the desperate expedient of the wants of a nation. It has then found its justification only in the necessity which created it: yet such are its inevitable evils, that every prudent Government has, the moment its pressing exigencies permitted, returned to the only safe basis of a circulating medium, the precious metals, and the private credits attached to the use of them. Such

were the expedients of the Government of the United States during its two wars; such its immediate abandonment of them at the return of peace. But, in the present condition of the Treasury of the United States, with a revenue far beyond its wants, with a debt almost nominal, and hastening to its entire extinguishment, such a measure is not needed by the interests of the Government, nor is there the slightest indication of its being demanded by the wants of the country. Of such an issue of paper money, the Executive at Washington would be the natural fountain,—the agents of the Executive, the natural channels. The individuals, and corporations, and States, who borrowed it, must become debtors to the Government; and the inevitable consequence would be, the creation of a monied engine of direct dependence on the officers of Government, at variance with the whole scheme of our institutions. The limit to which this currency should be issued, the persons to whom it should be lent, the securities taken for its repayment, the places where it should be redeemed, involve great complication and great hazard, regarding it merely in a financial point of view, while, on more enlarged considerations of political expediency, the objections to it are, in the opinion of the committee, insuperable and fatal.

Believing such a scheme to be impracticable, the committee were consoled with the reflection that it is *unnecessary*, as they are satisfied that the country is in the enjoyment of an uniform National currency, not only sound and uniform in itself, and perfectly adapted to all the purposes of the Government and the community, but more sound and uniform than that possessed by any other country. The importance of this truth will justify the committee in stating some details to establish it.

The currency of the United States, the only legal currency, is gold and silver. All debts to the Government, and all debts to individuals, being received in that medium, and in no other. As, however, the amount of coin requisite for these purposes would be unmanageable and inconvenient, the United States, like other commercial countries, have adopted the system of making credit supply many of the uses of coin: and numerous banking companies have been established, issuing notes, promising to pay on demand, gold and silver. The Government of the United States has established one of a similar character; and for the convenience of the community, the public revenue is collected in gold and silver, the notes of the Bank of the United States, and the notes of such solvent State banks, as the Bank of the United States and its branches will receive as cash.

The currency, therefore, of the United States, in its relation to the Government of the United States, consists of gold and silver, and of notes equivalent to gold and silver. And the inquiry which naturally presents itself, is, whether this mixed mass of currency is sound and uniform for all the practical purposes of the Government, and the trade of the Union. That it is so, will appear from the following facts:

1st. The Government receives its revenue from—

343 Custom Houses,

42 Land Offices,

8,004 Post Offices,

134 Receivers of Internal Revenue,

37 Marshals,

33 Clerks of Courts,

These, with other receiving officers, which need not be specified, compose an aggregate of more than 9,000 persons, dispersed through the whole of the Union, who collect the public revenue. From these persons, the

Government has, for the ten years preceding the 1st of January, 1830, received two hundred and thirty millions, sixty-eight thousand, eight hundred and fifty-five dollars and seventeen cents, (\$230,068,855 17.) This sum has been collected in every section of this widely extended country. It has been disbursed at other points, many thousand miles distant from the places where it was collected; and yet it has been so collected and distributed, without the loss, as far as the committee can learn, of a single dollar, and without the expense of a single dollar to the government. That a currency, by which the Government has been thus enabled to collect and transfer such an amount of revenue to pay its army and navy, and all its expenses, and the national debt, is unsafe and unsound, cannot readily be believed: for there can be no surer test of its sufficiency, than the simple fact that every dollar received in the form of a bank note, in the remotest parts of the interior, is, without charge, converted into a silver dollar, at every one of the vast number of places where the service of the Government requires its disbursement. The Secretary of the Treasury, in his report of the 6th of December, 1828, declares that, during the four years preceding, the receipts of the Government had amounted to more than ninety-seven millions of dollars, and that "all payments on account of the public debt, whether for interest or principal: all on account of pensions; all for the civil list; for the army; for the navy; or for whatever purpose wanted, in any part of the Union, have been punctually met."— The same officer states, that "it is the preservation of a good currency that can alone impart stability to property, and prevent those fluctuations in its value, hurtful alike to individuals, and to national wealth. This advantage, the *Bank has secured to the community*, by confining within prudent limits its issues of paper, &c. &c.

2d. If this currency is thus sound and uniform for the Government, it is not less so to the community.

The basis of all good currency, should be the precious metals, gold and silver; and in a mixed currency of paper circulating with gold or silver, and convertible into it, the great object to be attained is, that the paper should always be equal to gold or silver; that is, it should always be exchangeable for gold or silver. Such a currency is perfect, uniting the convenience of a portable material with the safety of a metallic medium. Now it cannot be doubted, that throughout this whole country, the circulating bank notes are equal to specie, and convertible into specie. There may be, and probably are, exceptions; because among banks, as among men, there are some who make a show of unreal strength. But it is a fact, so familiar to the experience of every citizen in the community, as to be undeniably, that, in all the Atlantic and commercial cities, and generally speaking, throughout the whole country, the notes of the State banks are equal to gold or silver. The committee do not mean to say, that there may not be too many banks, or that insolvencies do not occasionally occur among them; but as every bank which desires to maintain its character, must be ready to make settlements with the Bank of the United States, as the agent of the Government, or be immediately discredited, and must therefore keep its notes equal to gold or silver, there can be little danger to the community, while the issues of the banks are restrained from running to excess, by the salutary control of the Bank of the United States, whose own circulation is extremely moderate, compared with the amount of its capital. Accordingly, the fact is, that the general credit of the banks is good, and that their paper is always convertible into gold or silver, and for all local purposes forms a local currency equi-

valent to gold and silver. There is, however, superadded to this currency, a general currency more known, more trusted; and more valuable than the local currency, which is employed in the exchanges between different parts of the country. These are the notes of the national bank. These notes are receivable for the Government, by the 9,000 receivers, scattered throughout every part of the country. *They are in fact, in the course of business, paid in gold or silver, though they are not legally, or necessarily so paid, by the branches of the bank in every section of the Union.* In all commercial places they are received, in all transactions, without any reduction in value, and never, under any circumstances, does the paper, from the remotest branches, vary beyond a quarter of one per cent. in its actual exchange for silver. Here, then, is a currency as safe as silver; more convenient, and more valuable than silver, which, through the whole Western and Southern, and interior parts of the Union, is eagerly sought in exchange for silver; which in those sections, often bears a premium paid in silver; which is throughout the Union equal to silver in payment to the Government and payments to individuals in business, and which, whenever silver is needed in any part of the country, will command it, without the charge of more than a slight fraction of a per centage. By means of this currency, funds are transmitted at an expense less than in any other country. In no other country can a merchant do what every citizen of the United States can do—deposite, for instance, his silver at St. Louis, or Nashville, or New Orleans, and receive notes, which he can carry with him 1,000 or 1,500 miles, to the Atlantic cities, and there receive for them an equivalent amount of silver, without any expense whatever; and in no possible event, an expense beyond a quarter of one per cent. If, however, a citizen does not wish to incur the anxiety of carrying these notes with him, or to run the hazard of the mail, he may, instead of them, receive a draft, payable to himself or his agent alone, so as to ensure the receipt of an equal amount, at an expense of not one-half, and often not one-fourth, of the actual cost of carrying the silver. The owner of funds, for instance, at St. Louis or Nashville, can transfer them to Philadelphia for one-half per cent.; from New Orleans, generally, without any charge at all—at most, one-half per cent.; from Mobile, from par to one-half per cent.; from Savannah, at one-half per cent.; and from Charleston, at from par to one-quarter per cent.

This seems to present a state of currency approaching as near to perfection as could be desired: for here is a currency issued at twenty-four different parts of the Union, obtainable by any citizen who has money or credit. When in his possession, it is equivalent to silver in all his dealings with all the 9,000 agents of the Government, throughout the Union. In all his dealings with the interior, it is better than silver; in all his dealings with the commercial cities, equal to silver; and if, for any purpose, he desires the silver with which he bought it, it is at his disposal, almost universally, without any diminution, and never more than a diminution of one quarter per cent. It is not easy to imagine, it is scarcely necessary to desire, any currency better than this.

It is not among its least advantages, that it bears a proper relation to the real business and exchanges of the country; being issued only to those whose credit entitles them to it, increasing with the wants of the active operations of society, and diminishing, as these subside, into comparative inactivity.—While it is the radical vice of all Government paper to be issued without regard to the business of the community, and to be governed wholly by considerations of convenience to the Government.

After escaping so recently from the degradation of a depreciated paper currency, the committee would abstain from every thing which might, however remotely, revive it. The period is not remote when, in the language of the late Secretary of the Treasury, the country was oppressed by a "currency without any basis of coin, or other effective check, and of no value, as a medium of remittance or exchange, beyond the jurisdiction of the State whence it had been issued—a currency that not unfrequently imposed upon the Treasury the necessity of meeting, by extravagant premiums, the mere act of transferring the revenue, collected at one point, to defray unavoidable expense at another." It is still within the recollection of the Senate, when, at the seat of Government itself, specie could only be had at 20 or 22 per cent. in exchange for the bank paper promises to pay specie; that for bank notes of Baltimore, 2 per cent. were paid; for those of Philadelphia, 6 to 7 per cent.; for those of New York, 15 to 16 per cent.; and for those of Boston, 20 to 22 per cent.; ruinous inequalities, which have now happily disappeared.

3d. The soundness of the currency may be further illustrated by the present condition of the foreign exchanges.

Exchange on England is, at the present moment, more than 1 per cent. under par; that is, more than one per cent. in favor of the United States. This being the real fact, disguised by the common forms of quoting exchange on England at between 8 and 9 per cent. premium.

It would lead the committee too far from its present purpose to explain that the original estimate of the American dollar, as being worth four shillings and sixpence, and that, therefore, the English pound sterling is worth \$4 44, is wholly erroneous, and occasions a constant misapprehension of the real state of our intercourse with Great Britain. The Spanish dollar has not for a century, been worth four and sixpence: the American dollar never was; and whatever artificial value we may assign to our coins, is wholly unavailing to them in the crucibles of London or Paris. According to the latest accounts from London, at the close of December last, the Spanish dollar, instead of being worth four shillings and sixpence, or 54 pence, was worth only 49½ pence; the American dollar at least one-fourth per cent. less; so that, to produce one hundred times four and sixpence, it would be necessary to send to England, not 100 dollars, but 109 1-16 Spanish dollars, or 109½ of the United States' dollar. If to this be added the expenses and charges of sending the money and converting it into English gold, it will cost 111; so that 111 is, at this moment, the real par of exchange between the United States and England. If, therefore, a bill at sight can be procured for less than this sum, or a bill at sixty days for one per cent. less, say 110 per cent. it is cheaper than sending silver; that is to say: he who has silver to send to England can purchase a bill on London for a greater amount than he would get if he shipped the silver itself, and of course exchange would be in favor of the United States against England. Now, such bills can be bought at a less rate, by more than one per cent. in every city in the United States.

This fact is conclusive as to the state of the currency. If the bank notes of the country were not equal to specie, specie would be at a premium, which it no where is at present. If the currency were unsound, more must be paid of that currency in order to produce an equal amount of coin in another country, where these bank notes do not circulate. But if, as is the case at present, the bank notes are convertible into specie: if you can buy with bank notes as much as you can buy with silver; and if, in the transactions of the country abroad, the merchants, who, if the notes were not equal to coin, would go to the bank and ship the coin, can pay as much debt in foreign countries with

the notes as by sending the coin; there seems nothing wanting to complete the evidence of the soundness and uniformity of the currency.

On the whole, the committee are of opinion that the present state of the currency is safe for the community, and eminently useful to the Government; that, for some years past, it has been improving by the infusion into the circulating medium of a larger portion of coin, and the substitution of the paper of more solvent banks in lieu of those of inferior credit; and that, if left to the progress of existing laws and institutions, the partial inconveniences, which still remain, of the paper currency of the last war, will be wholly and insensibly remedied. Under these circumstances they deem it prudent to abstain from all legislation; to abide by the practical good which the country enjoys, and to put nothing to hazard by doubtful experiments.

The committee submit, for the information of the Senate, certain questions propounded to the President of the Bank of the United States, together with his answers thereto, and a document furnished by that officer, shewing the rates of exchange at which drafts are drawn by the Bank of the United States and its offices of discount and deposite; and ask to be discharged from the further consideration of the subject.

Questions submitted to the President of the Bank of the United States with his answers.

Question 1. When the Bank went into operation, was not Philadelphia paper ten per cent. worse than Boston, and that much better than Baltimore.

Answer. *Philadelphia paper was 17 per cent. worse than Boston paper—9 to 9½ worse than New York paper—4½ better than Baltimore.*

Q. 2. Were not the State banks indebted to the Government in large sums, which they could not have paid in Sound currency, (if so, to what amount?) And did not the Bank in many instances assume those debts, and pay them in sound currency, (if so, to what amount?) and indulge those Banks until it was convenient for them to pay? and did not the Bank lose money by such indulgence?

A. In the years 1817 and 1818, the Government transferred to the Bank at Philadelphia, from the State institutions, 7,472,419 87, which was cashed, and \$3,336,691 67 of special deposite, to be collected by the Bank, making \$10,809,111 54. The loss sustained by the Bank, I cannot estimate. I should willingly compromise for a loss of only \$200,000.

Q. 3. Has the bank at any time oppressed any of the State Banks?

A. Never. There are very few banks which might not have been destroyed by an exertion of the power of the bank. None have ever been injured. Many have been saved. And more have been, and are constantly relieved, when it is found that they are solvent but are suffering under temporary difficulty.

Q. 4. When a State bank becomes indebted to the bank to an improper extent, what course do you pursue? Do you let them go beyond a certain amount and what is that amount?

A. The great object is to keep the State banks within proper limits; to make them shape their business according to their means. For this purpose they are called upon to settle; never forced to pay specie, if it can be avoided, but payment is taken in their bills of exchange, or suffered to lie occasionally until the bank can turn round; no amount of debt is fixed, because the principle we wish to establish is, that every bank should always be ready to provide for its notes.

Q. 5. If you give drafts on any of the branches, or from one branch on another, or on the mother bank, what is the commission charged.

A. The charge for drafts is less than the transportation of specie. I send a detailed statement on this point.

Q. 6. Do you, and at every branch, pay specie on demand? Has there ever been a refusal?

A. Never.

Q. 7. Can you state whether specie is more or less abundant in the United States at present, than at any former period?

A. At the present moment, I think, specie is more abundant than usual. It comes in as usual. And the state of the exchanges with Europe is such that it is cheaper to buy bills, than to ship coin. The bank had, on the first instant, \$7,608 000, which is more than it has had for nine years past.

Q. 8. When the debt is annually paid off to foreigners, do they remit in specie or bills of exchange? Do you supply the means in either way?

A. When foreigners are paid off, a part is reinvested in other stocks, a part goes in bills, a considerable portion of which are bills of the bank. Specie is never resorted to unless the bill market is so high as to make that mode of remittance cheaper.

Q. 9. Since you commenced the purchase and sale of bills of exchange, has the rate varied; if so, to what extent?

A. The operations of the bank in exchanges has had the effect of preventing the great fluctuations to which they were previously liable.

Q. 10. What is the reason that exchange on England continues above what was formerly considered the par, that is, the dollar valued at 4s. 6d. sterling? Is it that the intrinsic value of the dollar has been found to be less than 4s 6d.? If so, what is that intrinsic value?

A. The reason is, that we choose to call our dollar 4s. 6d. when it never has been worth four and sixpence, and of course when it goes abroad, it is estimated not by the name we give it, but according to its real value.

RATES of EXCHANGE at which Drafts are drawn by the Bank of the United States and its Offices of Discount and Deposite.